

## Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 EB-08 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

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R 112150Z MAR 77

FM AMEMBASSY PANAMA

TO SECSTATE WASHDC 1030

INFO USSOUTHCOM

PANACANAL

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E.O. 11652: N/A

TAGS: ECON, PN

SUBJECT: PANAMANIAN TAX ON MERCHANDISE SALES

BEGIN UNCLASSIFIED

SUMMARY: GOP LEVIES TAX ON MERCHANDISE SALES AS SCHEDULED  
IN SPITE OF CONSIDERABLE CRITICISM FROM BUSINESS COMMUNITY.  
END SUMMARY.

1. THE CONTROVERSIAL AND WIDELY DISCUSSED FIVE PERCENT TAX  
ON MERCHANDISE SALES WENT INTO EFFECT MARCH 1 AS SCHEDULED.  
THE TAX, WHICH IS OFFICIALLY DESCRIBED AS A TRANSFER TAX,  
WAS AUTHORIZED BY DECREE NO. 75 OF DECEMBER 22, 1976, AND  
WIDELY REPORTED IN THE LOCAL PRESS IN JANUARY AND FEBRUARY.

2. THE TAX APPLIES TO SALES OF MERCHANDISE (BUT NOT REAL  
ESTATE) BUT WITH NOTABLE EXCEPTIONS, NAMELY, PETROLEUM PRODUCTS  
FOOD, MEDICINE AND SERVICES.  
THESE EXCEPTIONS ARE SAID TO HAVE BEEN DESIGNED TO  
MITIGATE OR OVERCOME THE REGRESSIVE NATURE THAT A STRAIGHT SALES  
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TAX WOULD HAVE SINCE FOOD COSTS TAKE A LARGER PERCENTAGE  
SHARE OF THE WAGES OF LOW-INCOME EARNERS THAN OF HIGHER  
INCOMES.

3. THE PAYMENT OF THE TAX IS THE RESPONSIBILITY OF THE SELLER.  
TAX IS COLLECTABLE AT EACH STAGE OF PRODUCTION AND  
MERCHANDISING UNTIL THE FINAL RETAIL SALE, E.G., THROUGH

PRODUCER, DISTRIBUTOR, WHOLESALE, AND RETAILER. A COMPLICATED AND AS YET INCOMPLETELY UNDERSTOOD FORMULA IS CALLED FOR, WHICH REDUCES THE TAX COLLECTABLE AT A GIVEN STAGE BY THE AMOUNT OF TAX COLLECTED AT PREVIOUS STAGES ON THE ITEM OR ELEMENTS WHICH WENT INTO THE ITEM. THEREFORE, THE ARITHMETIC IS TANTAMOUNT TO THAT OF A VALUE-ADDED TAX, WITH THE IMPORTANT DIFFERENCE THAT THE BURDEN OF PROOF SEEMS TO BE ON THE SELLER TO IDENTIFY AND ENSURE PROPER PAYMENT OF EARLIER TAXES IN THE CHAIN. STIFF PENALTIES HAVE BEEN ANNOUNCED FOR AVOIDING THE TAX OR FOR "SPECULATING" REGARDING THE TAX, AND ACCORDINGLY MOST SELLERS ARE REPORTEDLY TAKING NO CHANCES AND ARE COLLECTING THE FULL 5 PERCENT, WHICH THEY ADD TO THE PRICE PAID BY THE CONSUMER. THEREFORE, MULTIPLE LEVIES OF OVERLAPPING TAXES ON THE SAME ITEM ARE MORE THAN POSSIBLE; THEY ARE TO BE EXPECTED. AN OFFICIAL OF A LOCAL BUSINESSMEN'S ORGANIZATION ESTIMATES THAT THIS "CASCADING" EFFECT WILL BRING TAX TO EFFECTIVE RATE OF 8 PERCENT OR 9 PERCENT.

4. GOVERNMENT OFFICIALS HAVE ESTIMATED THAT THE TAX WILL PRODUCE BETWEEN 23 AND 27 MILLION DOLLARS ANNUAL REVENUE, BUT OTHER SOURCES SUGGEST THERE WAS AN ADDITIONAL PURPOSE FOR THE TAX BESIDES REVENUE, NAMELY, TO SERVE AS A MEANS FOR CLOSER CHECKING OF RECEIPTS, EXPENSES AND PROFITS OF BUSINESS ENTERPRISES.

5. SINCE ITS ANNOUNCEMENT IN THE PRESS IN EARLY JANUARY, THE NEW TAX HAS BEEN THE OBJECT OF CONSIDERABLE CRITICISM LIMITED OFFICIAL USE

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FROM BUSINESSMEN AND COMMERCIAL ORGANIZATIONS, INCLUDING THE CHAMBER OF COMMERCE, THE CONSTRUCTION CHAMBER AND THE COUNCIL OF PRIVATE ENTERPRISE ALL OF WHICH APPEALED FOR AT LEAST A POSTPONEMENT OF THE EFFECTIVE DATE, ANTICIPATING WIDESPREAD DIFFICULTIES IN SO RAPIDLY SETTING UP THE ACCOUNTING AND VERIFICATION SYSTEMS WHICH WOULD BE NECESSARY, AND IN OBTAINING THE ADDITIONAL PERSONNEL AND EQUIPMENT WHICH WOULD BE NEEDED. OTHER CRITICISMS QUESTIONED 1) THE ADVISABILITY OF ADDING A NEW TAX BURDEN UPON A SLUGGISH ECONOMY WHICH HAS NOT YET RECOVERED FROM THE RECENT RECESSION, 2) THE APPLICATION OF A COMPLETELY NEW TAX SYSTEM AND THE HEAVY BURDEN OF IMPLEMENTATION THAT IT WILL IMPOSE RATHER THAN THE INCREASE OF TAXES THROUGH EXISTING STRUCTURES, AND 3) THE ADVANTAGE OF A SYSTEM HAVING SUCH INVOLVED ARITHMETIC RATHER THAN A STRAIGHT SALES TAX WHICH WOULD MEAN EASIER IMPLEMENTATION, SIMPLER RECORD-KEEPING AND CLEARER UNDERSTANDING FOR ALL CONCERNED.

6. OTHER DIFFICULTIES HAVE NOT BEEN COMPLETELY IRONED

OUT, FOR INSTANCE, THE PROBLEM OF ALLOWING ADJUSTMENTS IN CONTRACTS INVOLVING USE OF MATERIALS WHOSE EFFECTIVE PRICE HAS NOW RISEN BECAUSE OF THE TAX. SPECIAL INTEREST GROUPS BELIEVE THERE SHOULD BE MORE EXCEPTIONS--SCHOOLS HAVE SUGGESTED THAT EDUCATIONAL MATERIALS, BOOKS, ETC. SHOULD BE EXEMPT FOR THE TAX; SPOKESMEN FOR THE CONSTRUCTION INDUSTRY BELIEVE THAT, BECAUSE OF THE IMPORTANCE OF THE CONSTRUCTION INDUSTRY TO ANY RECOVERY OF THE ECONOMY, TAXATION OF CONSTRUCTION SUPPLIES AND MATERIALS IS MOST ILL-ADVISED. A SMALL BUT REAL PROBLEM NOT YET FULLY RESOLVED CONCERNS THE SALE OF AN ITEM HAVING BOTH TAXABLE AND TAX-EXEMPT ELEMENTS; THE POPULAR EXAMPLE OF THIS PROBLEM IS A BOX OF EGGS, THE BOX BEING TAXABLE BUT THE EGGS BEING TAX-EXEMPT FOOD. THE NEW TAX HAS STIMULATED SALES IN ONE AREA, HOWEVER, SALES OF CASH REGISTERS HAVE RISEN SHARPLY.

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END UNCLASSIFIED.

7. IN SPITE OF THESE PROBLEMS AND COMPLAINTS, THE APPLICATION OF THE TAX SO FAR HAS GONE MORE SMOOTHLY THAN MIGHT HAVE BEEN EXPECTED. THE EXTENSIVE GOVERNMENT PRESS AND TV CAMPAIGN TO EXPLAIN, JUSTIFY AND GENTLY GREASE THE TAX MEASURE UNDOUBTEDLY HAD CONSIDERABLE BENEFICIAL EFFECT, ALTHOUGH WE HAVE PROBABLY NOT HEARD THE END OF THE STORY YET. THE ANNOUNCEMENT AND IMPLEMENTATION OF THE TAX DURING THE MAJOR ANNUAL SCHOOL VACATION WAS DOUBTLESS A WISE DECISION; LAST FALL'S STUDENT RIOTS OVER INCREASES IN THE PRICE OF MILK AND RICE WHEN SCHOOLS WERE IN SESSION STEMMED FROM WHAT WOULD SEEM TO BE FAR LESS PROVOCATION, AND IT IS POSSIBLE THAT WE WILL HEAR FROM THE STUDENTS AGAIN WHEN SCHOOLS RECONVENE THE END OF MARCH.  
JORDEN

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